

## 2001 Results

### Financial highlights

million CHF	2000	2001
<b>Net sales continuing</b>	1 703	<b>1 868</b>
Change in %		9.7
<b>EBITDA continuing</b>	443	<b>480</b>
Change in %		8.4
<b>EBITDA margin in %</b>	26.0	<b>25.7</b>
<b>Operating income continuing</b>	327	<b>357</b>
Change in %		9.2
<b>Operating margin in %</b>	19.2	<b>19.1</b>
<b>Operating income discontinuing</b>	84	<b>89</b>
Change in %		6.0
<b>Operating income group</b>	411	<b>446</b>
Change in %		8.5
<b>Non-recurring items</b>	0	<b>101</b>
Change in %		na
<b>Pre-tax earnings</b>	403	<b>513</b>
Change in %		27.3
<b>Net income</b>	309	<b>402</b>
Change in %		30.1
<b>Cash flow</b>	503	<b>611</b>
Change in %		21.5
<b>Net debt</b>	237	<b>514</b>
<b>Debt-equity ratio</b>	0.13	<b>0.32</b>
Change in %		146.2
<b>Earnings per share (CHF)</b>	48.88	<b>74.32</b>
Change in %		52.0
<b>Number of employees continuing</b>	4 625	<b>4 902</b>
Change in %		6.0

Lonza Group's earnings increased 52% to CHF 74.32 per share, on the back of marked advances in the Exclusive Synthesis and Biotechnology businesses. Included in these results are net after-tax gains of CHF 88 million (CHF 101 million pre-tax) relating to the partial completion of the divestiture program. Exclusive of these gains, earnings per share increased to CHF 58.05, an improvement of 19%. The Board will propose an increase in dividends from CHF 15 to CHF 19 per share.

### Overview

Group sales from continuing operations rose to CHF 1,868 million, up 9.7% on the prior year, notwithstanding a generally difficult global economic environment especially in the US and some parts of Asia. Adjusted for the impact of currency fluctuations the increase amounted to 10.4%.

Operating income from continuing operations increased to CHF 357 million, 9.2% higher than 2000. Together with discontinuing operations, which generated earnings of CHF 89 million (6% higher than 2000), Lonza Group's operating income rose to CHF 446 million, yielding a margin of 17.0% (16.7% in 2000).

The major contributors to the improvement in performance were our life sciences-oriented activities, especially in the Exclusive Synthesis and Biotechnology businesses where both sales and operating income showed significant advances. These developments more than offset the negative impact of the economic slowdown affecting mainly our Performance Chemicals business, which is predominantly US-based. Demand for Organic Fine Chemicals for the production of vitamins, pharmaceuticals, as well as for some specific agrochemicals and dyestuffs, remained strong throughout most of the year, although start-up issues in some plants after the biennial revamping of our cracker in Visp (CH) negatively impacted performance in the last quarter.

The sale of the Energy assets at year-end, net of some other non-recurring items, yielded a pre-tax gain of CHF 101 million which has been single-lined in the income statement.

As a consequence of the two share repurchase programs, the first of which ended in January 2001, and the second started in August 2001, and the cash inflow from the divestiture of our Energy assets in December 2001, Group net debt amounted to CHF 514 million compared with CHF 237 million at the end of 2000. Higher gearing throughout the year resulted in net financial expenses of CHF 29 million compared with CHF 3 million in the prior year. The tax rate for the Group of 24% is higher than last year's level but still at the lower end of the Group's expected tax rate range.

The combination of strong operational performance, the one-off gains and higher borrowing costs yielded net income of CHF 402 million, compared with CHF 309 million in 2000. Currency differences year-over-year played no role in this 30.1% improvement.

### Industrial sales by division



- Exclusive Synthesis & Biotechnology 47.7%
- Organic Fine & Performance Chemicals 52.1%
- Others 0.2%

## Operating income by division



- Exclusive Synthesis & Biotechnology 57.1%
- Organic Fine & Performance Chemicals 44.8%
- Others (1.9)%

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Capital expenditures of CHF 271 million were above the CHF 190 million incurred in 2000, with the majority of the spending devoted to our biotech projects. Cash flow remained strong at CHF 611 million, 21.5% higher than the prior year.

## Divestments

The divestiture program announced after the strategic reorientation of the Group a year ago was partially completed with the sale of the Energy activities at year-end 2001. The sale yielded gross proceeds of CHF 450 million (inclusive of debt), with nearly all of the assets targeted for sale being conveyed to the purchaser. The divestiture process for the bulk of the Polymer Intermediates businesses is well advanced; completion of the transaction is expected in the first quarter of 2002. Disposal of the remaining assets (isophthalic acid installations) should follow shortly thereafter.

## Share Repurchase Programs

At the Shareholders' Meeting on 28 March 2001, the Group's shareholders approved the cancellation of 907,978 shares repurchased in December 2000 and January 2001. At the next meeting shareholders will be asked to approve the cancellation of the shares from the third repurchase program started in August 2001 and due to last until 20 February 2002. To date the Group has repurchased 237,496 shares, representing 4.3% of the outstanding capital, at an average price of CHF 936 per share.

## Dividends and Capital Structure

Consistent with the Group's stated policy of distributing between 25 and 33% of consolidated net income as dividends, the Board of Directors proposes an increase of the dividend by CHF 4 to CHF 19 per share. It will also request approval of the shareholders for a 10:1 stock split, bringing the par value of the Lonza shares to CHF 1.

## Outlook

Notwithstanding a possible further softening of the global economy during 2002, the Group believes that, on the basis of its strong positions in fine chemicals and biotechnology, it will be able to improve on its 2001 operating performance. It also expects to recognize a non-recurring gain from the sale of the Polymer Intermediates assets.

**Martin Ebner**  
Chairman

**Sergio Marchionne**  
Managing Director and  
Chief Executive Officer

## Consolidated income statement

million CHF	2000	2001
<b>Net sales</b>	1 703	<b>1 868</b>
Operating expenses	(1 376)	<b>(1 511)</b>
<b>Operating income continuing</b>	327	<b>357</b>
Operating income discontinuing	84	<b>89</b>
<b>Operating income Group</b>	411	<b>446</b>
Non-recurring items	0	<b>101</b>
Goodwill	(5)	<b>(5)</b>
<b>Earnings before interest and taxes</b>	406	<b>542</b>
Financial expenses	(3)	<b>(29)</b>
<b>Pre-tax earnings</b>	403	<b>513</b>
Income taxes	(94)	<b>(110)</b>
<b>Net income incl. minorities</b>	309	<b>403</b>
Minorities	0	<b>(1)</b>
<b>Net income</b>	309	<b>402</b>

## Changes in shareholders' equity

million CHF	2000	2001
<b>At 31 12 1999/31 12 2000</b>	<b>2 498</b>	<b>1 854</b>
Dividend	(64)	<b>(82)</b>
Capital payment to algroup	(277)	-
Buy-back of own shares	(595)	<b>(537)</b>
Other comprehensive income	(17)	<b>(51)</b>
Net income	309	<b>402</b>
<b>At 31 12 2000/31 12 2001</b>	<b>1 854</b>	<b>1 586</b>

## Accounting principles

These condensed consolidated financial statements are based on the accounts of the individual subsidiaries at 31 December, which have been drawn up according to uniform Group accounting principles consistent with those adopted by Lonza Group in its consolidated financial statements for the year ended 31 December 2000.

The condensed consolidated accounts are rendered in conformity with the existing International Accounting Standards (IAS), published by the International Accounting Standards Committee (IASC).

## Consolidated cash flow statement

million CHF	2000	2001
Net income	309	<b>402</b>
Depreciation	165	<b>169</b>
Change in long-term provisions	31	<b>44</b>
Expenses (income) from equity method	(2)	<b>(4)</b>
<b>Cash flow</b>	503	<b>611</b>
<b>Investments</b>	190	<b>271</b>

## Exchange rates

			Balance sheet		Income statement	
			rate CHF		average rate CHF	
			31 12 00	<b>31 12 01</b>	2000	<b>2001</b>
USA	Dollar	1	1.64	<b>1.68</b>	1.69	<b>1.69</b>
Great Britain	Pound Sterling	1	2.45	<b>2.43</b>	2.56	<b>2.43</b>
EU	Euro	1	1.52	<b>1.48</b>	1.56	<b>1.51</b>
Germany	Mark	100	77.86	<b>75.69</b>	79.64	<b>77.32</b>
France	Franc	100	23.22	<b>22.57</b>	23.75	<b>23.06</b>
Netherlands	Guilder	100	69.11	<b>67.18</b>	70.68	<b>68.63</b>
Spain	Peseta	100	0.92	<b>0.89</b>	0.94	<b>0.91</b>
Italy	Lira	100	0.079	<b>0.076</b>	0.080	<b>0.078</b>

## Consolidated balance sheet as per 31 December 2001

million CHF	2000	2001
<b>Fixed assets</b>	1 602	<b>1 662</b>
Cash and cash equivalent	126	<b>565</b>
Advances and loans	20	<b>22</b>
Other current assets	833	<b>978</b>
Assets held pending disposition	838	<b>624</b>
<b>Total assets</b>	3 419	<b>3 851</b>
Shareholders' equity	1 854	<b>1 586</b>
Minority interests	18	<b>2</b>
Long-term debts	121	<b>49</b>
Short-term debts	262	<b>1 052</b>
Provisions and other liabilities	1 164	<b>1 162</b>
<b>Total liabilities and shareholders' equity</b>	3 419	<b>3 851</b>

Sales of discontinuing operations of CHF 750 million (2000: CHF 756 million), operating income of CHF 89 million (2000: CHF 84 million) and EBITDA of CHF 130 million (2000: CHF 128 million) are excluded from sales, operating income and EBITDA from continuing operations. All other data, including net income, include the impact of discontinuing operations.

## Exclusive Synthesis & Biotechnology

million CHF	2000	2001
<b>Net sales</b>	685	<b>891</b>
Change in %		30.1
<b>Change due to</b>		
Volume and prices		<b>215</b>
Currency translation		<b>(9)</b>
Scope of consolidation		<b>0</b>
<b>Operating income</b>	166	<b>204</b>
Change in %		22.9
<b>Operating margin</b>	24.2	<b>22.9</b>
<b>EBITDA</b>	220	<b>273</b>
Change in %		24.1
<b>EBITDA as % of sales</b>	32.1	<b>30.6</b>

## Exclusive Synthesis & Biotechnology

**With sales of CHF 891 million, our Exclusive Synthesis and Biotechnology businesses achieved another year of strong top-line growth, 30.1% up on the prior year (31.8% on a currency-adjusted basis). Operating income of CHF 204 million was 22.9% higher than in 2000.**

**Exclusive Synthesis** – Despite increased competitive pressure, our business with the pharmaceutical industry grew significantly in 2001 due to good demand for established products and customers filling launch pipelines. Our pipeline of upcoming products, mainly in the cardiovascular, anti-inflammatory, anti-infective and anti-viral/HIV areas, was strengthened. During the year, Lonza entered into large-scale peptide synthesis, establishing a sound manufacturing base for other projects. Equipment with significant expansion potential was installed in this area. In the agrochemicals business, demand for our active ingredients and intermediates based on sulfonyleurea grew strongly, despite continuing stagnation of the global crop protection markets. This more than compensated for the decrease in sales of some other products.

**Biotechnology** – Our activities in microbial fermentation delivered good growth in sales and operating income, especially in the area of contract fermentation for the pharmaceutical industry. We were able to seize several new business opportunities by taking advantage of our combined capabilities and experience in biotechnology and chemistry. Industrial-scale production of an intermediate for an anti-viral treatment was successfully implemented and validated at our Kourim (CZ) plant. The L-Carnitine product family for the food, pharmaceutical and feed market was further expanded following FDA approval for L-Carnitine based prescription drugs.

To cope with the expected increase in demand for our products, the Group approved a major capacity expansion in Kourim (CZ) and Visp (CH). The CHF 95 million investment will increase our fermentation capacity by 50% in 2003 and add further downstream processing capabilities.

Our business with mammalian cell culture fermentation for therapeutic proteins and monoclonal antibodies continued to make good progress, with sales and operating income increasing in line with our expectations. Lonza Biologics reached several milestones, including licensing by the FDA and the EMEA (European Agency for the Evaluation of Medicinal Products) of our Portsmouth (US) facility. We further optimized our assets to meet the substantial increase in demand and improve customer turnaround. A capacity expansion program was also completed and successfully brought on stream in Slough (UK); this is already 100% committed under long term contracts. Work continues on schedule for the additional 60'000 liters of large tank capacity in Portsmouth (US). Already over 90% of the new capacity is under option to contract to strategic customers. We plan to bring these fermenters on stream under cGMP conditions by mid-2004.

## Organic Fine & Performance Chemicals

million CHF	2000	2001
<b>Net sales</b>	1 013	<b>973</b>
Change in %		(3.9)
<b>Change due to</b>		
Volume and prices		(38)
Currency translation		(2)
Scope of consolidation		0
<b>Operating income</b>	167	<b>160</b>
Change in %		(4.2)
<b>Operating margin</b>	16.5	<b>16.4</b>
<b>EBITDA</b>	228	<b>214</b>
Change in %		(6.1)
<b>EBITDA as % of sales</b>	22.5	<b>22</b>

## Organic Fine & Performance Chemicals

The division's sales declined marginally to CHF 973 million. Operating income decreased to CHF 160 million, slightly below the previous year's level of CHF 167 million. Operating margins were nearly constant at 16.4% (16.5% in 2000). The positive development of our European businesses was more than offset by a substantial decline in the USA which persisted throughout the year, as well as the high raw material input prices experienced especially at the beginning of the year.

**Organic Fine Chemicals** – Overall demand for the sector's products remained strong, the exception being the US market, especially the diketene segment. The business with nicotinates (a vitamin of the B complex) remained strong, with production capacity fully utilized. A de-bottlenecking project in the nicotinic acid plant in Visp (CH) was successfully concluded. Sales of Meta® – a molluscicide – reached another all-time high, mainly driven by the market introduction of new product forms (rice paddy fields and fishponds). Demand for intermediates for the production of vitamins and pharmaceuticals, as well as for some specific agrochemicals and dyestuffs, remained buoyant throughout 2001. Volumes of organic intermediates declined slightly due to increased competition from low-cost countries and a global slackening of demand for these products. However, margins remained stable due to continuous cost improvements. Performance of our plants following the biennial shutdown for revamping of our cracker in Visp (CH) was less than satisfactory, adversely affecting fourth quarter results.

**Performance Chemicals** – Good revenue growth in Europe and a stable performance in the Asian region were more than offset by the persisting softness of the trading environment in the USA. Profitability in the sector weakened, notwithstanding the restructuring initiatives implemented in the first part of 2001.

In Biocides, selected activities such as the household, industrial and institutional hygiene markets remained healthy despite the downturn in travel and restaurant activities. The food ingredients market continued to turn in a steady performance, while growth in the personal care market appears to have momentarily plateaued. The introduction of two new, globally accepted preservatives will enable customers to harmonize their formulations worldwide. Papermaking, identified as a market with potential in Europe and North America, provided significant growth for the halogenated hydantoin products in slimicide applications.

Our oleochemicals, used in the polymer and powder-metal markets, continue to be affected by the slowdown in the industrial economy.

## Discontinuing Operations 2001

million CHF	2000	2001
<b>Net sales</b>	756	<b>750</b>
Change in %		(0.8)
<b>Change due to</b>		
Volume and prices		<b>11</b>
Currency translation		<b>(17)</b>
Scope of consolidation		<b>0</b>
<b>Operating income</b>	84	<b>89</b>
Change in %		6.0
<b>Operating margin</b>	11.1	<b>11.9</b>
<b>EBITDA</b>	128	<b>130</b>
Change in %		1.6
<b>EBITDA as % of sales</b>	16.9	<b>17.3</b>

## Discontinuing Operations

**The sustained recovery in the area of our Polymer Intermediates business, together with strong results from our Energy assets, lifted operating results and margins. Margins climbed to 11.9% from 11.1% in the previous year and confirmed a trend already apparent in the first six months of 2001. Operating income rose to CHF 89 million, up 6%. Sales held constant at 2000 levels.**

**Polymer Intermediates** – In a market generally subdued by cyclical effects, our activities continued to recover on the back of cuts in production capacity in certain segments during the year. Good volumes and reasonable margins were achieved in the business with trimellitic anhydride and special plasticizers, strengthening our market position in new formulations and applications for the automotive sector.

In our business with phthalic anhydride and general purpose plasticizers sales and margins remained at the previous year's level. The economic downturn strongly affected the European PVC industry, and demand for our additives declined. Exports to the Far East dwindled, with prices reaching historic lows. The difficult market environment prompted some players to quit the business, bringing supply closer in line with demand. Deliveries of maleic anhydride and derivatives were satisfactory despite reduced demand for unsaturated polyester resins. As a result of good utilization of our plant capacity, reduced raw material costs and higher prices, this business sector was able to increase profitability.

Sales volumes of unsaturated polyester resins remained stable, with revenues higher than in 2000. The reshaping process within the industry is also expected to affect this market segment. Although demand for compounds and composites was cyclical during the period, we managed to keep sales and margins at the previous year's level.

Production and sales of purified isophthalic acid (PIA) reached 40,000 tonnes. Demand was particularly weak in Europe and the USA. Prices remained depressed.

Our Catalysts and Technologies business recorded positive results. A concerted R&D effort led to higher sales and the introduction of new catalysts. Our custom catalysts initiative yielded a substantial increase in the number of projects. New products will be launched in 2002.

**Energy** – The business performed well in 2001. Revenues increased further due to favorable weather conditions in spring and summer when high temperatures melted large quantities of glacier ice and snow at high altitude. Profitability was boosted by somewhat higher energy prices and systematic cost management, as well as measures to broaden the customer base.